## 📘 HRM 307 – COMPENSATION MANAGEMENT (COMPLETE TERMS)

### ◆ CORE CONCEPTS

**Compensation** – Total rewards employees receive for their work.

**Total Rewards** – Includes pay, benefits, incentives, and non-financial rewards.

**Compensation System** – A structure designed to attract, motivate, and retain employees while supporting company goals.

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### ◆ COMPONENTS OF COMPENSATION

**Base Pay** – Fixed regular pay employees receive.

**Variable Pay** – Performance-based earnings such as bonuses or incentives.

**Benefits** – Indrect compensation like insurance, leave, and retirement plans.

**Non-Financial Rewards** – Recognition, career growth, and work environment.

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### ◆ EQUITY & FAIRNESS

**Equity Theory** – Employees compare their compensation with others to determine fairness.

**Internal Equity** – Fair pay within the organization.

**External Equity** – Pay fairness compared with other companies.

**Internal Alignment** – Jobs are valued based on their contribution to organizational goals.

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### ◆ JOB EVALUATION METHODS

**Job Evaluation** – Process of determining job value for fair compensation.

**Job Ranking Method** – Ranking jobs from highest to lowest value.

**Job Classification Method** – Grouping jobs into classes based on duties.

**Point Factor Method** – Assigning points to job factors (skills, effort, responsibility).

**Factor Comparison Method** – Comparing jobs using key compensable factors.

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### ◆ COMPENSABLE FACTORS

**Skill** – Ability, education, and training required.

**Effort** – Physical or mental energy required.

**Responsibility** – Level of accountability in the job.

**Working Conditions** – Environment and hazards involved.

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### ◆ EXTERNAL COMPETITIVENESS

**External Competitiveness** – Setting pay levels based on labor market rates.

**Market Pricing** – Using market salary data to set compensation.

**Salary Survey** – Collecting wage data from other organizations.

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### ◆ PAY LEVEL STRATEGIES

**Lead Strategy** – Paying above market rate.

**Match Strategy** – Paying at market rate.

**Lag Strategy** – Paying below market rate.

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### ◆ PAY STRUCTURE

**Pay Structure** – Organized framework of pay grades and ranges.

**Pay Grade** – Group of jobs with similar value.

**Pay Range** – Minimum to maximum pay for a job.

**Broadbanding** – Combining pay grades into wider ranges.

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### ◆ PAY DATA & ADMINISTRATION

**Job Pricing** – Assigning pay rates using job evaluation and market data.

**Reliable Pay Data** – Accurate and sufficient compensation data for decisions.

**Pay Policy Line** – Graph showing relationship between job value and pay.

### ◆ CORE CONCEPTS

- **Compensation** – All forms of financial returns and tangible services/benefits employees receive as part of employment. *(Example: Salary, bonuses, health insurance)*
- **Direct Compensation** – Monetary rewards paid directly to employees. *(Example: Wages, salaries, incentives)*
- **Indirect Compensation** – Non-monetary benefits provided to employees. *(Example: Paid leave, retirement plans, company car)*
- **Base Pay** – Fixed amount of money paid to an employee for their job. *(Example: Monthly salary)*
- **Variable Pay** – Pay that depends on performance or results. *(Example: Commission, profit-sharing)*
- **Incentives** – Rewards designed to motivate employees to achieve specific goals. *(Example: Sales bonus for meeting targets)*
- **Benefits** – Non-cash compensation that improves employee well-being. *(Example: Health insurance, vacation leave)*
- **Equity Compensation** – Ownership-based rewards. *(Example: Stock options, shares)*
- **Total Rewards** – Comprehensive view of all compensation and benefits employees receive. *(Example: Salary + incentives + benefits + recognition programs)*

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### ◆ EQUITY & FAIRNESS

- **Equity Compensation** – Ownership-based pay to align employees with company success. *(Example: Stock options)*
- **Internal Equity** – Fairness of pay compared to other employees within the same company. *(Example: Equal pay for equal work)*
- **External Equity** – Fairness of pay compared to similar jobs in the market. *(Example: Competitive salary compared to industry standards)*
- **Pay Equity** – Ensuring fairness in compensation across employees. *(Example: Equal pay regardless of gender)*

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### ◆ JOB EVALUATION & JOB ANALYSIS

- **Job Evaluation** – Systematic process of determining the relative worth of jobs. *(Example: Ranking jobs by responsibility level)*
- **Job Analysis** – Collecting information about job duties and requirements. *(Example: Interviewing employees to document tasks)*
- **Job Ranking Method** – Ordering jobs from highest to lowest value.
- **Job Classification Method** – Grouping similar jobs into categories.
- **Point Factor Method** – Assigning points based on job factors (skills, effort, responsibility).
- **Factor Comparison Method** – Comparing jobs using key compensable factors.
- **Compensable Factors** – Criteria used to evaluate job value (skill,

effort, responsibility, working conditions).

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**◆ PAY STRUCTURE & PAY STRATEGIES**

- **Pay Structure** – Framework that defines pay levels for different jobs. *(Example: Salary grades in an organization)*
- **Salary Grade** – A classification of jobs grouped by similar value and pay range. *(Example: Grade 10 jobs earn ₱30,000–₱40,000 monthly)*
- **Pay Grade** – Group of jobs with similar value and pay range.
- **Pay Range** – Minimum to maximum pay for a job.
- **Broadbanding** – Combining pay grades into wider ranges.
- **Lead Strategy** – Paying above market rate to attract talent.
- **Match Strategy** – Paying at market rate.
- **Lag Strategy** – Paying below market rate.
- **Performance-Based Pay** – Compensation linked to employee performance. *(Example: Merit increase after a good appraisal)*

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**◆ EXTERNAL COMPETITIVENESS**

- **External Competitiveness** – Setting pay levels based on labor market rates.
- **Salary Survey** – Researching market pay rates for similar jobs. *(Example: Benchmarking salaries against industry averages)*
- **Market Pricing** – Using market salary data to set compensation.

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**◆ PAY ADMINISTRATION & LEGAL CONSIDERATIONS**

- **Compensation Administration** – Managing pay systems. *(Example: HR monitoring payroll accuracy and compliance)*
- **Pay Policy Line** – Graph showing relationship between job value and pay.
- **Reliable Pay Data** – Accurate and sufficient compensation data for decisions.
- **Minimum Wage** – Lowest legal pay rate set by government. *(Example: ₱610/day in NCR, Philippines)*
- **Living Wage** – Pay sufficient to meet basic living expenses. *(Example: Higher than minimum wage for food, housing, education)*
- **Overtime Pay** – Extra compensation for work beyond standard hours. *(Example: 125% of hourly rate in the Philippines)*
- **Legal Compliance** – Following labor laws in pay practices. *(Example: Adhering to minimum wage and overtime rules)*

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**◆ TOTAL COMPENSATION & REWARDS**

- **Total Compensation** – Sum of direct pay, indirect pay, and non-financial rewards. *(Example: Salary + benefits + recognition programs)*
- **Total Rewards** – All compensation and benefits received. *(Example: Salary + incentives + benefits + recognition programs)*
- **Non-Monetary Rewards** – Recognition or opportunities not involving money. *(Example: Employee of the Month award)*
- **Fringe Benefits** – Additional perks beyond salary. *(Example: Gym membership, company phone)*

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**◆ STRATEGIC COMPENSATION**

- **Compensation Philosophy** – Guiding principles for pay systems. *(Example: "Pay for performance" philosophy)*
- **Strategic Compensation** – Aligning pay practices with business goals. *(Example: Incentives tied to company growth targets)*